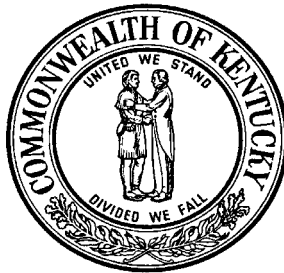


**REPORT OF THE AUDIT OF THE  
LAUREL COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2003**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE LAUREL COUNTY FISCAL COURT**

**For The Fiscal Year Ended June 30, 2003**

The Auditor of Public Accounts has completed the audit of the Laurel County Fiscal Court for fiscal year ended June 30, 2003.

We have issued unqualified opinions, based on our audit and the report of the other auditor, of the financial statements of Laurel County, Kentucky.

#### **Financial Condition:**

The fiscal court had net assets of \$43,325,161 as of June 30, 2003. The fiscal court had unrestricted net assets of \$3,345,752 in its governmental funds as of June 30, 2003, with total net assets of \$43,263,351. In its enterprise fund, total net cash and cash equivalents were \$61,810 with total net assets of \$61,810. The fiscal court had total debt principal as of June 30, 2003 of \$4,858,922 with \$648,922 due within the next year.

#### **Report Comments:**

- The County Engaged In Related Party Transactions
- The Fiscal Court Should Update The County's Road List

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds during fiscal year 2003.



<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT .....	1
LAUREL COUNTY OFFICIALS.....	3
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	5
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	15
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	18
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	22
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	26
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS .....	31
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS .....	35
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS .....	39
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	42
NOTES TO FINANCIAL STATEMENTS.....	44
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS .....	61
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	65
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	68
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS .....	72
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	77
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	83
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	85
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	89
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 .....	93
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS	

THIS PAGE LEFT BLANK INTENTIONALLY



**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Lawrence Kuhl, Laurel County Judge/Executive  
Members of the Laurel County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Laurel County, Kentucky, as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Laurel County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Laurel County Section 8 Housing. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Laurel County Section 8 Housing, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Laurel County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Laurel County, Kentucky, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable Lawrence Kuhl, Laurel County Judge/Executive  
Members of the Laurel County Fiscal Court

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Laurel County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of findings and questioned costs and schedule of expenditures of federal awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2004 on our consideration of Laurel County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The County Engaged In Related Party Transactions
- The Fiscal Court Should Update The County's Road List

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
November 12, 2004



## LAUREL COUNTY OFFICIALS

For The Year Ended June 30, 2003

### **Fiscal Court Members:**

Lawrence Kuhl	County Judge/Executive
Roy Crawford	Magistrate
Tom Baker	Magistrate
David Westerfield	Magistrate
James Lewis	Magistrate
Billy Oakley	Magistrate
Noah Baker	Magistrate

### **Other Elected Officials:**

Elmer Cunnagin	County Attorney
Jack Sizemore	Jailer
Dean Johnson	County Clerk
Roger Schott	Circuit Court Clerk
Gene Hollon	Sheriff
Marian Davis	Property Valuation Administrator
Doug Bowling	Coroner

### **Appointed Personnel:**

Karen Montgomery	County Treasurer
Rick Brewer	Occupational Tax Collector

THIS PAGE LEFT BLANK INTENTIONALLY



**LAWRENCE KUHL**  
**JUDGE EXECUTIVE of LAUREL COUNTY**  
PH: 606-864-4640 FAX: 606-864-3867  
Lcfiscalcourt@altel.com  
LAUREL COUNTY COURTHOUSE  
101 SOUTH MAIN STREET - LONDON, KENTUCKY 40741-2301



**Management's Discussion and Analysis**  
**June 30, 2003**

The financial management of Laurel County, Kentucky offers readers of Laurel County's financial statements this narrative overview and analysis of the financial activities of Laurel County for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

**Financial Highlights**

- Laurel County had net assets of \$43,325,161 as of June 30, 2003. The fiscal court had unrestricted net assets of \$3,345,752 in the governmental activities as of June 30, 2003. In the business-type activities, cash and cash equivalents were \$61,810 with total assets of \$61,810.
- The governmental activities total net assets decreased by \$1,504,784 from the prior year. This decrease is primarily due to depreciation expense.
- At the close of the current fiscal year, Laurel County governmental funds reported current assets of \$3,804,944. Of this amount, \$3,223,681 is available for spending at the government's discretion (unreserved fund balance).
- Laurel County's total indebtedness at the close of fiscal year June 30, 2003 was \$4,858,922, of which \$4,210,000 is noncurrent debt (due after 1 year) and \$648,922 is current debt (to be paid within 1 year). Debt additions were \$10,738,959 and debt reductions were \$10,755,007 for a net decrease of \$16,048 for the year. This decrease was due to early payments of Laurel County Courthouse Annex, Inc.

**Overview of the Financial Statements**

This management discussion and analysis is intended to serve as an introduction to Laurel County's basic financial statements. Laurel County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function. This is the first year of implementation and these schedules will be presented next year.

**Laurel County**  
**Management's Discussion and Analysis**  
**June 30, 2003**  
**(Continued)**

**Government-wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of Laurel County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Laurel County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Laurel County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Laurel County's governmental activities include general government, protection to persons and property, roads, recreation, social services, airport, debt service, capital projects, and administration. Laurel County has one business type activity - Jail Canteen.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Laurel County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Laurel County can be divided into broad categories: *governmental funds and proprietary funds*.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

**Laurel County**  
**Management's Discussion and Analysis**  
**June 30, 2003**  
**(Continued)**

**Governmental Funds (Continued)**

Because focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Laurel County maintains (12) twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road Fund
- Jail Fund
- Occupational Tax Fund
- General Obligation Bond Fund
- Laurel County Courthouse Annex, Inc.
- Laurel County Section 8 Housing

Non-major Funds:

- Local Government Economic Assistance Fund
- Forest Fire Fund
- Local Government Economic Development Fund
- Chemical Stockpile Emergency Preparedness Program Fund
- Economic Development Fund
- Camp Wildcat Preservation Fund

Laurel County adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund, Road Fund, Jail Fund, and Occupational Tax Fund to demonstrate compliance with their budgets.

**Proprietary Funds.** Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

**Laurel County**  
**Management's Discussion and Analysis**  
**June 30, 2003**  
**(Continued)**

**Net Assets.** As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

**Table 1**  
**Laurel County's Net Assets**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2002	2003	2002	2003	2002	2003
<b>Assets</b>						
Current and other assets	\$ 3,867,435	\$ 3,804,944	\$ 57,807	\$ 61,810	\$ 3,925,242	\$ 3,866,754
Capital assets	45,775,670	44,317,329	0	0	45,775,670	44,317,329
Total Assets	49,643,105	48,122,273	57,807	61,810	49,700,912	48,184,083
<b>Liabilities</b>						
Current and other liabilities	0	648,922	0	0	0	648,922
Long-term liabilities	4,874,970	4,210,000	0	0	4,874,970	4,210,000
Total Liabilities	4,874,970	4,858,922	0	0	4,874,970	4,858,922
<b>Net Assets</b>						
Invested in capital assets, net of related debt	40,900,700	39,458,407	0	0	40,900,700	39,458,407
Restricted	0	459,192	0	0	0	459,192
Unrestricted	3,867,435	3,345,752	57,807	61,810	3,925,242	3,407,562
Total Net Assets	\$ 44,768,135	\$43,263,351	\$ 57,807	\$ 61,810	\$ 44,825,942	\$ 43,325,161

**Changes in Net Assets**

*Governmental Activities.* Laurel County's net assets decreased by \$1,504,784 in fiscal year 2003. Key elements of this are as follows:

- Current and long-term liabilities decreased by \$16,048 due to additional debt.

*Business-type Activities.* Laurel County's net assets increased by \$4,003 in fiscal year 2003. Key elements are as follows:

- Current assets and cash increased by \$4,003.

**Laurel County  
Management's Discussion and Analysis  
June 30, 2003  
(Continued)**

**Financial Analysis of the County's Funds**

As noted earlier, Laurel County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

*Governmental Funds Overview.* The focus of Laurel County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 2003 fiscal year, the combined ending fund balances of County governmental funds were \$3,804,944. Approximately 85% (\$3,223,681) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$581,263) is reserved to indicate that it is not available for new spending because it is committed for the various encumbrances.

The County has (7) seven major and (5) non-major governmental funds, as listed on page 6.

1. The General Fund is the chief operating fund of Laurel County. At the end of June 30, 2003 fiscal year, unreserved fund balance of the General Fund was \$528,693, while total fund balance was \$803,248. The General Fund receipted \$2,410,994 in real and personal property, motor vehicle, and other taxes for approximately 29% of the county's general revenues.
2. The Road Fund is the fund related to County road and bridge construction and maintenance. The Road Fund had \$348,453 fund balance at June 30, 2003. The fiscal year 2003 expenditures for Road Fund were \$1,510,678.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a balance at June 30, 2003 of \$21,323. The Jail Fund received \$1,782,691 for intergovernmental fees, primarily for housing prisoners.
4. The Occupational Tax Fund had a fund balance of \$1,488,895 as of June 30, 2003. The Occupational Tax Fund receipted \$5,292,607 from occupational taxes. This accounted for 64% of the county's general revenues.
5. The General Obligation Bond Fund had a balance of \$221,954 as of June 30, 2003. These funds are restricted for debt reduction.
6. The Laurel County Courthouse Annex, Inc. at the end of June 30, 2003 fiscal year, had a fund balance of \$57. These funds are restricted for debt reduction.
7. The Laurel County Section 8 Housing at the end of June 30, 2003, had a fund balance of \$93,243. These funds are to provide rental assistance to low-income families.
8. The Local Government Economic Assistance Fund had a fund balance of \$206,246 as of June 30, 2003.

**Laurel County  
Management's Discussion and Analysis  
June 30, 2003  
(Continued)**

**Financial Analysis of the County's Fund (Continued)**

*Governmental Funds Overview (Continued)*

9. The Forest Fire Fund had a balance of \$3,795 as of June 30, 2003 and is used to account for forest fire tax receipts. Expenditures of \$2,232 were spent for protection to persons and property.
10. The Local Government Economic Development Fund had a fund balance of \$2,252 as of June 30, 2003.
11. The Chemical Stockpile Emergency Preparedness Program Fund received intergovernmental funds of \$36,414 and expended \$59,230 for protections to persons and property.
12. Economic Development Fund had a fund balance of \$177,033 as of June 30, 2003.
13. The Camp Wildcat Preservation Fund had a balance of \$50,020.

*Proprietary Funds Overview.* The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Laurel County has one (1) enterprise proprietary fund, it is:

- Jail Canteen Fund

The Jail Canteen Fund's unrestricted net assets at the end of June 30, 2003 fiscal year, amounted to \$61,810 which also totaled net assets.

**General Fund Budgetary Highlights**

Laurel County's General Fund budget was amended during the fiscal year increasing the budgeted amount by \$12,517,283. Budget amendments were made to various expenditures due to revenue anticipation notes from Medicaid to Laurel Height Nursing Home in the amount of \$5,898,959, surplus cash carried forward, and an increase in actual tax revenue.

**Capital Assets and Debt Administration**

*Capital Assets.* Laurel County's investment in capital assets for its government and business type activities as of June 30, 2003, amount to \$44,317,329 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, current infrastructure additions, construction in progress for park improvements, and old jail improvement. Laurel County has elected to report infrastructure assets per GASB 34 provisions.

Additional information on the county's capital assets can be found in Note 4 of this report.



**Laurel County**  
**Management's Discussion and Analysis**  
**June 30, 2003**  
**(Continued)**

**Capital Assets and Debt Administration (Continued)**

**Table 2**  
**Laurel County's Capital Assets, Net of Accumulated Depreciation**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2002	2003	2002	2003	2002	2003
Infrastructure Assets	37,837,095	36,211,268	0	0	37,837,095	36,211,268
Land	1,005,010	1,005,010	0	0	1,005,010	1,005,010
Const. In Progress	0	0	0	0	0	0
Bldgs. & Improvements	5,975,764	5,841,342	0	0	5,975,764	5,841,342
Other Equip.	108,288	180,074	0	0	108,288	180,074
Vehicles & Equip.	849,513	1,079,635	0	0	849,513	1,079,635
Total Net Capital Assets	45,775,670	44,317,329	0	0	45,775,670	44,317,329

*Long-Term Debt.* At the end of the 2003 fiscal year, Laurel County had total bonded debt outstanding of \$4,858,922. The totals are as follows: General Obligation Bonds \$4,580,000 and Revenue Bonds \$215,000. In addition, the county had (3) three financing obligations totaling \$63,922.

**Other Matters.** The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2004 fiscal year budget:

- The 2004 fiscal year adopted budget continues most services at current levels.
- Program cuts at the State level, particularly relating to the cost of housing prisoners, may have a negative impact on funding for county programs.
- Economic factors indicate continued growth for Laurel County.
- On December 16, 2003, Laurel County Fiscal Court issued General Obligation Improvement Bonds (Courthouse Renovation and Expansion Project), in the amount of \$6,110,000. The purpose of the bonds will be used by the county to 1) finance the improvement and renovation of the courthouse, including reimbursing the county for costs associated therewith, 2) capitalize interest for 18 months; and 3) pay the cost of issuance on the bonds.

**Requests For Information.**

This financial report is designed to provide a general overview of Laurel County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided herein or requests for additional financial information should be addressed to the Laurel County Treasurer, 101 South Main Street, London, KY 40741.

THIS PAGE LEFT BLANK INTENTIONALLY

**LAUREL COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2003**



**LAUREL COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2003**

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 3,436,589	\$ 61,810	\$ 3,498,399
Notes Receivable (Note 3)	368,355		368,355
Total Current Assets	<u>3,804,944</u>	<u>61,810</u>	<u>3,866,754</u>
Noncurrent Assets:			
Land and Land Improvements	1,005,010		1,005,010
Buildings	5,841,342		5,841,342
Other Equipment	180,074		180,074
Vehicles and Equipment	1,079,635		1,079,635
Infrastructure Assets - Net of Depreciation	<u>36,211,268</u>		<u>36,211,268</u>
Total Noncurrent Assets	<u>44,317,329</u>		<u>44,317,329</u>
Total Assets	<u>48,122,273</u>	<u>61,810</u>	<u>48,184,083</u>
<b>LIABILITIES</b>			
Current Liabilities:			
General Obligation Bonds	370,000		370,000
Revenue Bonds	215,000		215,000
Financing Obligations	<u>63,922</u>		<u>63,922</u>
Total Current Liabilities	<u>648,922</u>		<u>648,922</u>
Noncurrent Liabilities:			
General Obligation Bonds	<u>4,210,000</u>		<u>4,210,000</u>
Total Noncurrent Liabilities	<u>4,210,000</u>		<u>4,210,000</u>
Total Liabilities	<u>4,858,922</u>		<u>4,858,922</u>
<b>NET ASSETS</b>			
Invested in Capital Assets,			
Net of Related Debt	39,458,407		39,458,407
Restricted For:			
Debt Service	221,954		221,954
Grant Monies	237,238		237,238
Unrestricted	<u>3,345,752</u>	<u>61,810</u>	<u>3,407,562</u>
Total Net Assets	<u>\$ 43,263,351</u>	<u>\$ 61,810</u>	<u>\$ 43,325,161</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**LAUREL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2003**

**LAUREL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 2,518,559	\$ 500,862	\$ 325,730	\$
Protection to Persons and Property	8,733,666	1,553,359	5,376,830	
General Health and Sanitation	991,189	49,579	359,871	
Social Services	1,126,896		7,173,815	
Recreation and Culture	619,105			111,574
Roads	3,733,043		1,797,479	
Debt Service	526,375			
Capital Projects	549,376			
Administration	8,436,654			
Total Governmental Activities	27,234,863	2,103,800	15,033,725	111,574
Business-type Activities:				
Jail Canteen Fund - Modified	218,618	454,355		
Total Business-type Activities	218,618	454,355		
Total Primary Government	\$ 27,453,481	\$ 2,558,155	\$ 15,033,725	\$ 111,574

**General Revenues:**

Taxes:  
     Real Property Taxes  
     Personal Property Taxes  
     Motor Vehicle Taxes  
     Other Taxes  
 Excess Fees  
 Unrestricted Investment Earnings  
 Loss On Investments  
 Miscellaneous Revenues  
 Transfers from Jail Commissary  
 Accrued Interest Received  
  
 Total General Revenues and Transfers  
 Change in Net Assets  
 Net Assets - Beginning (Restated)  
  
 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.



**LAUREL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2003**  
**(Continued)**

<b>Net (Expenses) Revenues and Changes in Net Assets</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Totals</b>
\$ (1,691,967)	\$	\$ (1,691,967)
(1,803,477)		(1,803,477)
(581,739)		(581,739)
6,046,919		6,046,919
(507,531)		(507,531)
(1,935,564)		(1,935,564)
(526,375)		(526,375)
(549,376)		(549,376)
(8,436,654)		(8,436,654)
(9,985,764)		(9,985,764)
	235,737	235,737
	235,737	235,737
(9,985,764)	235,737	(9,750,027)
934,073		934,073
205,136		205,136
249,026		249,026
6,389,556		6,389,556
369,633		369,633
67,789	(231,734)	(163,945)
144,434		144,434
117,177		117,177
4,156		4,156
8,480,980	(231,734)	8,249,246
(1,504,784)	4,003	(1,500,781)
44,399,780	57,807	44,457,587
<u>\$ 42,894,996</u>	<u>\$ 61,810</u>	<u>\$ 42,956,806</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**LAUREL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2003**

**LAUREL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2003**

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Occupational Tax Fund</u>	<u>General Obligation Bond Fund</u>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 803,248	\$ 348,453	\$ 21,323	\$ 1,488,895	\$ 221,954
Total Assets	<u>\$ 803,248</u>	<u>\$ 348,453</u>	<u>\$ 21,323</u>	<u>\$ 1,488,895</u>	<u>\$ 221,954</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$ 37,317	\$ 55,474	\$ 26,998	\$ 192	\$
Grants	237,238				
Capital Projects Fund					221,954
Unreserved:					
General Fund	528,693				
Special Revenue Funds		292,979	(5,675)	1,488,703	
Capital Projects Funds					
Total Fund Balances	<u>\$ 803,248</u>	<u>\$ 348,453</u>	<u>\$ 21,323</u>	<u>\$ 1,488,895</u>	<u>\$ 221,954</u>

The accompanying notes are an integral part of the financial statements.

**LAUREL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2003**  
**(Continued)**

<b>Laurel County Courthouse Annex, Inc.</b>	<b>Laurel County Section 8 Housing</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
<u>\$ 57</u>	<u>\$ 93,243</u>	<u>\$ 459,416</u>	<u>\$ 3,436,589</u>
<u>\$ 57</u>	<u>\$ 93,243</u>	<u>\$ 459,416</u>	<u>\$ 3,436,589</u>
\$	\$	\$ 2,090	\$ 122,071
			237,238
			221,954
			528,693
	93,243	457,326	2,326,576
57			57
<u>\$ 57</u>	<u>\$ 93,243</u>	<u>\$ 459,416</u>	<u>\$ 3,436,589</u>

The accompanying notes are an integral part of the financial statements.

**LAUREL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2003**  
**(Continued)**

**Reconciliation to Statement of Changes In Net Assets:**

Total Fund Balances	\$ 3,436,589
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds	101,222,620
Depreciation	(56,905,291)
Notes Receivable Are Not Available In The Current Period And Are Not Reported In The Funds	368,355
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(63,922)
Bonded Debt	<u>(4,795,000)</u>
Net Assets Of Governmental Activities	<u>\$ 43,263,351</u>

**LAUREL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

**LAUREL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>	<b>Occupational Tax Fund</b>
<b>REVENUES</b>				
Taxes	\$ 2,410,994	\$	\$	\$ 5,292,607
In Lieu Tax Payments		58,255		
Excess Fees	369,633			
Licenses and Permits	500,705			
Intergovernmental	5,899,658	1,332,094	1,782,691	
Charges for Services	11,554		40,371	
Miscellaneous	6,142,316	1,121	6,977	
Interest	12,130	4,084	1,435	13,146
Total Revenues	<u>15,346,990</u>	<u>1,395,554</u>	<u>1,831,474</u>	<u>5,305,753</u>
<b>EXPENDITURES</b>				
General Government	1,302,997			856,592
Protection to Persons and Property	5,627,036		2,201,661	860,730
General Health and Sanitation	768,754			274,998
Social Services	5,782			49,500
Recreation and Culture	399,198			217,312
Roads		1,279,629		974,088
Debt Service	5,898,959			
Capital Projects				500,000
Administration	6,837,598	231,049	434,461	791,990
Total Expenditures	<u>20,840,324</u>	<u>1,510,678</u>	<u>2,636,122</u>	<u>4,525,210</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(5,493,334)</u>	<u>(115,124)</u>	<u>(804,648)</u>	<u>780,543</u>
<b>Other Financing Sources (Uses)</b>				
Bond Issuance				
Discount On Bond Issuance				
Accrued Interest Received				
Cost Of Bond Issuance				
Financing Obligation Proceeds	5,898,959			
Transfers From Other Funds	100,000	395,183	642,178	100,000
Transfers To Other Funds	(365,412)	(167,277)		(625,000)
Total Other Financing Sources (Uses)	<u>5,633,547</u>	<u>227,906</u>	<u>642,178</u>	<u>(525,000)</u>
Net Change in Fund Balances	140,213	112,782	(162,470)	255,543
Fund Balances - Beginning	663,035	235,671	183,793	1,233,352
Fund Balances - Ending	<u>\$ 803,248</u>	<u>\$ 348,453</u>	<u>\$ 21,323</u>	<u>\$ 1,488,895</u>

The accompanying notes are an integral part of the financial statements.



**LAUREL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2003**  
**(Continued)**

<b>General Obligation Bond Fund</b>	<b>Laurel County Courthouse Annex, Inc.</b>	<b>Laurel County Section 8 Housing</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$	\$		\$ 1,567	\$ 7,705,168
				58,255
				369,633
				500,705
		1,191,898	397,958	10,604,299
			96	52,021
	94,000	1,146	3,662	6,249,222
20,543	11,411	1,654	5,040	69,443
20,543	105,411	1,194,698	408,323	25,608,746
			313,083	2,472,672
			61,462	8,750,889
				1,043,752
		1,063,345		1,118,627
				616,510
			43,275	2,296,992
4,932,738	246,249		37,955	11,115,901
			49,376	549,376
		139,797	1,759	8,436,654
4,932,738	246,249	1,203,142	506,910	36,401,373
(4,912,195)	(140,838)	(8,444)	(98,587)	(10,792,627)
4,840,000				4,840,000
(70,906)				(70,906)
4,156				4,156
(59,250)				(59,250)
				5,898,959
815,332	189,558		6,000	2,248,251
(395,183)	(578,202)			(2,131,074)
5,134,149	(388,644)		6,000	10,730,136
221,954	(529,482)	(8,444)	(92,587)	(62,491)
	529,539	101,687	552,003	3,499,080
\$ 221,954	\$ 57	\$ 93,243	\$ 459,416	\$ 3,436,589

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**LAUREL COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**



**LAUREL COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ (62,491)
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital Outlay	1,608,489
Depreciation Expense	(3,066,830)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. These transactions, however, have no effect on net assets.	
Financing Obligation	(5,898,959)
Bond Issuance	(4,840,000)
Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.	
Financing Obligations	5,970,007
Bond Payments	<u>4,785,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (1,504,784)</u></u>

THIS PAGE LEFT BLANK INTENTIONALLY

**LAUREL COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2003**





**LAUREL COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2003**

	<b>Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 61,810
Total Current Assets	<u>61,810</u>
 Total Assets	 <u>\$ 61,810</u>
 <b>Net Assets</b>	
Unrestricted	61,810
Total Net Assets	<u><u>\$ 61,810</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**LAUREL COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**



**LAUREL COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

	<b>Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 454,355
Total Revenue	<u>454,355</u>
<b>Operating Expenses</b>	
Cost of Sales	190,602
Educational and Recreational	1,257
Personnel Costs	5,318
Work Release Medical	14,045
Supplies	7,396
Total Operating Expenses	<u>218,618</u>
Operating Income	<u>235,737</u>
<b>Nonoperating Revenues (Expenses)</b>	
Interest Income	751
Inmate Pay From State	16,243
Inmate Refunds	(131,550)
Transfers to Jail Fund	<u>(117,178)</u>
Total Nonoperating Revenues (Expenses)	<u>(231,734)</u>
Change In Net Assets	4,003
Total Net Assets - Beginning	<u>57,807</u>
Total Net Assets - Ending	<u><u>\$ 61,810</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**LAUREL COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2003**

**LAUREL COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2003**

	<b>Enterprise Fund</b> <hr/> <b>Jail Canteen Fund</b> <hr/>
<b>Cash Flows From Operating Activities</b>	
Receipts From Customers	\$ 454,355
Cost of Sales	(190,602)
Work Release Costs	(15,302)
Inmate Barber Services	(5,318)
Supplies	(7,396)
Net Cash Provided By Operating Activities	<hr/> 235,737 <hr/>
<b>Cash Flows From Noncapital Financing Activities</b>	
Inmate Pay From State	16,243
Inmate Refunds on Accounts	(131,550)
Transfers to Jail Fund	(117,178)
Net Cash Used By Noncapital Financing Activities	<hr/> (232,485) <hr/>
<b>Cash Flows From Investing Activities</b>	
Interest Earned	751
Net Cash Provided By Investing Activities	<hr/> 751 <hr/>
Net Increase in Cash and Cash Equivalents	4,003
Cash and Cash Equivalents - July 1	57,807
Cash and Cash Equivalents - June 30	<hr/> \$ 61,810 <hr/>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Income	\$ 235,737
Net Cash Provided By Operating Activities	<hr/> \$ 235,737 <hr/>

. The accompanying notes are an integral part of the financial statements.



**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	44
NOTE 2.	DEPOSITS.....	51
NOTE 3.	LONG-TERM RECEIVABLES .....	51
NOTE 4.	CAPITAL ASSETS .....	53
NOTE 5.	LONG-TERM DEBT.....	54
NOTE 6.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS.....	56
NOTE 7.	RELATED PARTY TRANSACTIONS .....	56
NOTE 8.	ESCROW ACCOUNT .....	56
NOTE 9.	COMMITMENTS AND CONTINGENCIES.....	57
NOTE 10.	EMPLOYEE RETIREMENT SYSTEM.....	57
NOTE 11.	DEFERRED COMPENSATION .....	57
NOTE 12.	SUBSEQUENT EVENTS .....	57
NOTE 13.	CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS.....	58
NOTE 14.	ESTIMATED BUILDING AND INFRASTRUCTURE HISTORICAL COST .....	58
NOTE 15.	ADJUSTMENTS TO STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS .....	58

**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets is included in the Statement of Net Assets and their corresponding depreciation expenses are included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Laurel County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

**Blended Component Unit**

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on these organizations. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Laurel County Courthouse Annex, Inc.

Laurel County Courthouse Annex, Inc. (Corporation) is a legally separate entity established to provide long-term debt service for the Laurel County Fiscal Court. The Corporation's governing body consists entirely of fiscal court members. Therefore, the fiscal court is financially accountable and legally obligated for the debt of the Laurel County Courthouse Annex, Inc. Financial information for the Laurel County Courthouse Annex, Inc. is blended within Laurel County's financial statements.

**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Unit (Continued)

Laurel County Section 8 Housing

The Laurel County Fiscal Court has entered into a contract with the U. S. Department of Housing and Urban Development for the administration of a Housing Assistance Payments Program. The Department makes annual contributions (subsidies) to the Program to provide rental assistance to low-income families and administrative costs of the program. The program provides rental assistance to approximately 300 low-income families.

Laurel County Fiscal Court exercises oversight responsibility over Laurel County Section 8 Housing. Oversight responsibility is defined to include, but is not limited to: financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. Financial information for Laurel County Section 8 Housing is blended within Laurel County's financial statements.

Audited financial statements for the Laurel County Section 8 Housing, a blended component unit, may be requested by contacting the Laurel County Section 8 Housing, London, Kentucky 40741.

The financial statements of Laurel County Section 8 Housing, a blended component unit, are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America. However, the auditor of Laurel County Section 8 Housing provided us with financial statements prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**C. Additional - Laurel County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Laurel County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Laurel County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Occupational Tax Fund – This fund is for the county's general operating expenditures, including road and bridge construction repair. In addition, lease payments are made from this fund. The primary source of revenue for this fund is occupational and net profit taxes.

General Obligation Bond Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Fiscal Court. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

Laurel County Courthouse Annex, Inc. - The Laurel County Courthouse Annex, Inc. accounts for the activities of the Laurel County Courthouse Annex, Inc., a blended component unit of the county. The Laurel County Courthouse Annex, Inc. issued debt to build facilities and roads. The Laurel County Courthouse Annex, Inc. entered into a contract, lease, and option with the County, and Administrative Office of The Courts (AOC). The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

Laurel County Section 8 Housing – The Laurel County Section 8 Housing accounts for rental assistance receipts from U. S. Department of Housing and Urban Development for the administration of a Housing Assistance Payments Program used to assist low-income families and administrative costs of the program. Funds are legally restricted for specific purposes. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Forest Fire Fund, Local Government Economic Development Fund, Chemical Stockpile Emergency Preparedness Program Fund, Economic Development Fund, and Camp Wildcat Preservation Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**F. Capital Assets (Continued)**

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	Unlimited
Buildings and Building Improvements	\$ 25,000	1-50
Machinery and Equipment	\$ 5,000	5-15
Vehicles	\$ 5,000	1-5
Infrastructure	\$ 25,000	10-50

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**J. Joint Ventures**

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Laurel County Fiscal Court:

City-County Industrial Development Authority

The Laurel County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the City-County Industrial Development Authority (Development Authority). The Development Authority is a joint venture between Fiscal Court and City of London for the purpose of promoting and fostering the gainful employment, business, and economic development opportunities and general welfare of the citizens and residents of both the City of London and Laurel County.

London-Laurel Industrial Development Authority

The London-Laurel Industrial Development Authority (Authority) was established in 1971 by the Laurel County Fiscal Court in accordance with Kentucky Revised Statute 154.50 to assist in the acquisition, retention, and development of land for industrial and commercial purposes in order to stimulate industrial development in Laurel County, Kentucky. The Authority was reorganized in 2001 as a joint creation of the County of Laurel, Kentucky and the City of London, Kentucky.

London-Laurel County Tourist Commission

The Laurel County Fiscal Court (Fiscal Court) has retained an ongoing financial responsibility for the London-Laurel County Tourist Commission (Tourist Commission). The Tourist Commission is a joint venture between Fiscal Court and City of London to assist and promote convention and tourism of the county and city.



**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 2. Deposits**

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the primary government's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the primary government as beneficiary/obligee on the bond.

**Note 3. Long-term Receivables**

- A. On October 5, 1998, Laurel County loaned Chaney Lumber Company, Inc. the proceeds from a Community Development Block Grant in the amount of \$170,000. The loan was for a period of 15 years at 4 percent interest with 180 equal monthly payments in the amount of \$1,257. As of June 30, 2003, records indicate that Chaney Lumber, Inc. was in substantial compliance with the terms of the loan agreement, and the principal balance due was \$4,988.
- B. On November 4, 1998, Laurel County loaned Bengé Trucking, Inc. \$390,000 from the Industrial Authority's portion of the Occupational Tax Fund, of which \$120,000 was repaid to the Laurel County Fiscal Court on September 30, 1999. The remaining balance of \$270,000 was for a period of 180 months at 5 percent interest with monthly payments of \$1,557. The first payment was due on January 1, 2000. The loan is to be administered by the London-Laurel County Industrial Authority, Inc. Repayment of these funds will go to the London-Laurel County Industrial Authority, Inc. for support. As of June 30, 2003, records indicate that Bengé Trucking was in substantial compliance with the terms of the loan agreement, and the principal balance due was \$208,796.
- C. On September 10, 1997, Laurel County loaned Nu-Legend Boat Company \$45,000 from the Industrial Development Fund. The loan was for a period of 5 years at 5 percent interest with 60 equal monthly payments in the amount of \$849. No payments were received during fiscal year 2003. As of June 30, 2003, Nu-Legend Boat Company was not in substantial compliance with the terms of the loan agreement, and the principal balance due was \$35,913. On July 14, 2003, Laurel County Fiscal Court filed civil action against Nu-Legend Boat Company for payment of this unpaid loan balance.
- D. On October 5, 1988, Laurel County loaned Laminated Timbers, Inc. the proceeds from a Community Development Block Grant in the amount of \$80,000. The loan was for a period of 15 years at 4 percent interest with 180 equal payments in the amount of \$592. As of June 30, 2003, records indicate that Laminated Timbers was in substantial compliance with the terms of the loan agreement, and the principal balance due was \$2,348.

**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 3. Long-Term Receivables (Continued)**

- E. On March 5, 2001, Laurel County loaned Kinlee Stables Riding Center, Inc. \$120,000 from the Industrial Development Fund. The loan was for a period of 180 months with interest payments of \$400 for 9 months beginning April 1, 2001 through December 1, 2001. The remaining balance was for a period of 171 months at 4 percent interest with monthly payments of \$921 beginning January 1, 2002. For the fiscal year ended June 30, 2003, records indicate Kinlee Stables Riding Center, Inc. made only one payment and was not in substantial compliance with the terms of the loan agreement. As of June 30, 2003, the principal balance due was \$116,311.

Company	Governmental Activities		
	Principal Amount Borrowed	Interest Rate	Principal Due As Of June 30, 2003
Chaney Lumber Company	\$ 170,000	4%	\$ 4,988
Dallas Benge Trucking	390,000	5%	208,796
Nu-Legend Boat Company	45,000	5%	35,913
Laminated Timber, Inc.	80,000	4%	2,347
Kinlee Stables Riding Center	120,000	4%	116,311
	<u>\$ 805,000</u>		<u>\$ 368,355</u>

**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 4. Capital Assets**

Capital asset activity for the year ended June 30, 2003 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1,005,010		\$	\$ 1,005,010
Total Capital Assets Not Being Depreciated	1,005,010			1,005,010
Capital Assets, Being Depreciated:				
Buildings	\$ 9,003,611	2,414		9,006,025
Other Equipment	430,420	100,148		530,568
Vehicles and Equipment	1,839,542	530,855		2,370,397
Infrastructure	\$ 87,335,548	975,072		88,310,620
Total Capital Assets Being Depreciated	98,609,121	1,608,489		100,217,610
Less Accumulated Depreciation For:				
Buildings	(3,027,847)	(136,836)		(3,164,683)
Other Equipment	(322,132)	(28,362)		(350,494)
Vehicles and Equipment	(990,029)	(300,733)		(1,290,762)
Infrastructure	(49,498,453)	(2,600,899)		(52,099,352)
Total Accumulated Depreciation	(53,838,461)	(3,066,830)		(56,905,291)
Total Capital Assets, Being Depreciated, Net	44,770,660	(1,458,341)		43,312,319
Governmental Activities Capital Assets, Net	\$ 45,775,670	\$ (1,458,341)	\$ 0	\$ 44,317,329

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 170,887
Protection to Persons and Property	164,451
General Health and Sanitation	19,509
Social Services	10,683
Recreation and Culture	2,595
Roads, Including Depreciation of General Infrastructure Assets	2,698,705
Total Depreciation Expense - Governmental Activities	<u>\$ 3,066,830</u>

**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 5. Long-term Debt**

**A. General Obligation Refunding Bonds, Series 2003**

The Laurel County Fiscal Court issued obligations of \$4,840,000, dated March 1, 2003 and payable in 15 annual installments beginning June 1, 2003 and semi-annual interest payments on the first of June and December at varying rates from 1.00% to 3.90%. The Fiscal Court issued the bonds for the purpose of refunding the Series 1992 and 1993 bonds issued by Laurel County Courthouse Annex, Inc., purchasing road equipment, and paying the cost of issuance of the bonds. As of June 30, 2003, bonds outstanding were \$4,580,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2004	\$ 370,000	\$ 133,428
2005	295,000	129,357
2006	280,000	125,375
2007	290,000	120,615
2008	285,000	114,380
2009-2013	1,575,000	440,995
2014-2017	1,485,000	144,135
Totals	<u>\$ 4,580,000</u>	<u>\$ 1,208,285</u>

**B. Public Project Revenue Bonds, Series 1992**

On September 1, 1992, Laurel County Courthouse Annex, Inc. (Corporation), an agency and instrumentality of the Fiscal Court, issued public project revenue bonds in the amount of \$1,000,000 for the purpose of paying the costs of construction, reconstruction, and repair of certain public roads. During fiscal year 2003, Laurel County Fiscal Court issued General Obligation Refunding Bonds, Series 2003 (Note 6.A.). A portion of this bond issue will be used to pay the outstanding principal on the public project revenue bonds, series 1992. As of June 30, 2003, bonds outstanding were \$215,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2004	<u>\$ 215,000</u>	<u>\$ 6,938</u>

**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**C. Kentucky Infrastructure Authority Loan**

Laurel County entered into a loan agreement with the Kentucky Infrastructure Authority, the proceeds from which were used to develop an industrial site for Begley Lumber Company. Revolving loan payments from Begley Lumber Company have been deemed sufficient to meet the debt service obligations of the loan. The loan is for a period of 10 years at 3.3 percent interest with 20 semiannual payments of \$18,914 with the first payment due December 4, 1994. The original amount of the loan was \$319,969, and the principal outstanding as of June 30, 2003, was \$36,911. Future note principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest and Fees
2004	\$ 36,911	\$ 972

**D. Dump Trucks**

On April 5, 2000, the Laurel County Fiscal Court entered into an agreement with Farmers Bank and Capital Trust Company for the purchase of two dump trucks. The principal was \$103,348 at an effective interest rate of 5.61 percent. The principal outstanding as of June 30, 2003, was \$16,398. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2004	\$ 16,398	\$ 308

**E. Suburban**

On December 28, 2000, the Laurel County Fiscal Court entered into an agreement with the Farmers Bank and Capital Trust Company for the purchase of a Suburban. The principal was \$42,455 at an effective interest rate of 5.97 percent. The principal outstanding as of June 30, 2003, was \$10,613. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2004	\$ 10,613	

**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 5. Long-term Debt (Continued)**

**F. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 4,425,000	\$ 4,840,000	\$ 4,685,000	\$ 4,580,000	\$ 370,000
Revenue Bonds	315,000		100,000	215,000	215,000
Financing Obligations	134,970	5,898,959	5,970,007	63,922	63,922
Governmental Activities					
Long-term Liabilities	<u>\$ 4,874,970</u>	<u>\$ 10,738,959</u>	<u>\$ 10,755,007</u>	<u>\$ 4,858,922</u>	<u>\$ 648,922</u>

**Note 6. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$3,774 in interest on financing obligations and \$308,694 in interest on bonds and notes.

**Note 7. Related Party Transactions**

During the fiscal year ended June 30, 2003, Laurel County paid Greer Construction Company, Inc. \$173,412 and Benge Trucking Company, Inc., \$822,632 for road construction work. Greer Construction Company, Inc. is the employer of former Magistrate David Bruner and Benge Trucking Company, Inc., is owned by the brother of former Magistrate Teddy Benge. The contracts awarded to each of these companies were subject to the open bidding process. Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist.

In addition, during the fiscal year ended June 30, 2003, Laurel County paid Ronald Rockwell \$15,972 for repairs on the air conditioner and high maintenance at the detention center. Ronald Rockwell is the father of the county treasurer. These expenditures were approved by the fiscal court. Because of the nature of the relationships between the companies and the former magistrates and county treasurer, the transactions are considered to be related party transactions.

**Note 8. Escrow Account**

The Sheriff transferred \$2,253 in surplus monies from his 1995 tax account to the Fiscal Court in September 1997. The Fiscal Court purchased a certificate of deposit in November 1997 with these monies. According to KRS 393.110, these monies are to be left in escrow for seven (7) years after which if the funds have not been claimed, the funds should be submitted to the Treasury Department. The balance in the account as of June 30, 2003 was \$2,757.

**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 9. Commitments and Contingencies**

Laurel County is contingently liable for bonds issued December 1, 1998 at 5 percent interest by the Laurel County Care for the Elderly Facilities Public Corporation. The outstanding principal balance at June 30, 2003 was \$6,490,000.

**Note 10. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at 502-564-4646.

**Note 11. Deferred Compensation**

Laurel County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority, 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at 502-573-7925.

**Note 12. Subsequent Events**

On December 16, 2003, Laurel County Fiscal Court issued General Obligation Improvement Bonds (Courthouse Renovation and Expansion Project), in the amount of \$6,110,000. The purpose of the bonds will be to 1) finance the improvement and renovation of the courthouse, including reimbursing the county for costs associated therewith, 2) capitalize interest for 18 months; and 3) pay the cost of issuance on the bonds.

**LAUREL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2003**  
**(Continued)**

**Note 13. Changes in Accounting Principles and Prior Period Adjustments**

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental is an increase of \$40,900,700 due to capital assets previously not reported.

The beginning fund balance for the Jail Canteen Fund has been restated for outstanding checks and receipts previously omitted in error. The net effect on the Jail Canteen Fund is a decrease of \$1,999.

**Note 14. Estimated Building and Infrastructure Historical Cost**

Building and infrastructure historical cost is an estimate. The primary government estimated the year buildings and infrastructure were built by determining when a major reconstruction had been done. This estimate was used to calculate the building and infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction.

**Note 15. Adjustments to Statement of Revenues, Expenditures, and Changes In Fund Balances-Governmental Funds**

The county was approved for High Intensity Drug Trafficking Area (HIDTA) grants totaling \$4,817,873 during fiscal year ended June 30, 2003. These grants went directly to HIDTA without passing through the county's books. The county's Intergovernmental Revenue account was increased by \$4,817,873 and the Protection to Persons and Property expenditure account was increased by \$4,817,873 on the "Statement Of Revenues, Expenditures, And Changes In Fund Balances - Governmental Funds" to show the grant proceeds as if they had passed through the county's books. This results in a difference of \$4,817,873 for these accounts as they are presented on the "Budgetary Comparison Schedules - Major Funds - General Fund."



**LAUREL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**Modified Cash Basis**  
  
**For The Year Ended June 30, 2003**



**LAUREL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**Modified Cash Basis**

**For The Year Ended June 30, 2003**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 2,070,100	\$ 2,180,100	\$ 2,410,994	\$ 230,894
Excess Fees	217,000	367,000	369,633	2,633
Licenses and Permits	340,000	340,000	500,705	160,705
Intergovernmental Revenue	383,300	829,199	1,081,785	252,586
Charges for Services	10,000	10,000	11,554	1,554
Miscellaneous	50,300	6,104,531	6,142,316	37,785
Interest	15,000	15,000	12,130	(2,870)
Total Revenues	3,085,700	9,845,830	10,529,117	683,287
<b>EXPENDITURES</b>				
General Government	887,639	1,332,909	1,302,997	29,912
Protection to Persons and Property	507,670	819,007	809,163	9,844
General Health and Sanitation	631,967	801,170	768,754	32,416
Social Services	3,000	5,783	5,782	1
Recreation and Culture	286,000	399,198	399,198	
Debt Service	326,556	5,898,959	5,898,959	
Administration	974,264	6,877,353	6,837,598	39,755
Total Expenditures	3,617,096	16,134,379	16,022,451	111,928
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(531,396)	(6,288,549)	(5,493,334)	795,215
<b>OTHER FINANCING SOURCES (USES)</b>				
Financing Obligation Proceeds		5,898,959	5,898,959	
Transfers From Other Funds			100,000	100,000
Transfers To Other Funds	(6,000)	(271,946)	(365,412)	(93,466)
Total Other Financing Sources (Uses)	(6,000)	5,627,013	5,633,547	6,534
Net Changes in Fund Balances	(537,396)	(661,536)	140,213	801,749
Fund Balances - Beginning	537,396	661,536	663,035	1,499
Fund Balances - Ending	\$ 0	\$ 0	\$ 803,248	\$ 803,248

**LAUREL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**Modified Cash Basis**  
**For The Year Ended June 30, 2003**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
In Lieu Tax Payments	\$ 62,000	\$ 62,000	\$ 58,255	\$ (3,745)
Intergovernmental Revenue	1,280,306	1,337,306	1,332,094	(5,212)
Miscellaneous	500	500	1,121	621
Interest	10,000	10,000	4,084	(5,916)
Total Revenues	1,352,806	1,409,806	1,395,554	(14,252)
<b>EXPENDITURES</b>				
Roads	947,581	1,419,545	1,279,629	139,916
Administration	292,200	268,165	231,049	37,116
Total Expenditures	1,239,781	1,687,710	1,510,678	177,032
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	113,025	(277,904)	(115,124)	162,780
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds		395,183	395,183	
Transfers To Other Funds	(113,025)	(167,279)	(167,277)	2
Total Other Financing Sources (Uses)	(113,025)	227,904	227,906	2
Net Changes in Fund Balances		(50,000)	112,782	162,782
Fund Balances - Beginning		50,000	235,671	185,671
Fund Balances - Ending	\$ 0	\$ 0	\$ 348,453	\$ 348,453

**LAUREL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**Modified Cash Basis**  
**For The Year Ended June 30, 2003**  
**(Continued)**

	<b>JAIL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 2,086,100	\$ 2,086,100	\$ 1,782,691	\$ (303,409)
Charges for Services	84,500	43,607	40,371	(3,236)
Miscellaneous	41,400	61,400	6,977	(54,423)
Interest	2,500	2,500	1,435	(1,065)
Total Revenues	<u>2,214,500</u>	<u>2,193,607</u>	<u>1,831,474</u>	<u>(362,133)</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	2,262,800	2,280,412	2,201,661	78,751
Administration	486,800	489,188	434,461	54,727
Total Expenditures	<u>2,749,600</u>	<u>2,769,600</u>	<u>2,636,122</u>	<u>133,478</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(535,100)</u>	<u>(575,993)</u>	<u>(804,648)</u>	<u>(228,655)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	<u>525,000</u>	<u>565,893</u>	<u>642,178</u>	<u>76,285</u>
Total Other Financing Sources (Uses)	<u>525,000</u>	<u>565,893</u>	<u>642,178</u>	<u>76,285</u>
Net Changes in Fund Balances	(10,100)	(10,100)	(162,470)	(152,370)
Fund Balances - Beginning	<u>10,100</u>	<u>10,100</u>	<u>183,793</u>	<u>173,693</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 21,323</u>	<u>\$ 21,323</u>

**LAUREL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS**  
**Required Supplementary Information**  
**Modified Cash Basis**  
**For The Year Ended June 30, 2003**  
**(Continued)**

<b>OCCUPATIONAL TAX FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 4,500,000	\$ 5,050,000	\$ 5,292,607	\$ 242,607
Interest	25,000	25,000	13,146	(11,854)
Total Revenues	4,525,000	5,075,000	5,305,753	230,753
<b>EXPENDITURES</b>				
General Government	751,749	895,740	856,592	39,148
Protection to Persons and Property	811,000	838,175	860,730	(22,555)
General Health and Sanitation	478,000	478,000	274,998	203,002
Social Services	48,500	49,500	49,500	
Recreation and Culture	151,000	218,000	217,312	688
Roads	746,601	1,024,222	974,088	50,134
Capital Projects	500,000	500,000	500,000	
Administration	718,150	1,151,363	791,990	359,373
	4,205,000	5,155,000	4,525,210	629,790
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	320,000	(80,000)	780,543	860,543
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds			100,000	100,000
Transfers To Other Funds	(525,000)	(525,000)	(625,000)	(100,000)
Total Other Financing Sources (Uses)	(525,000)	(525,000)	(525,000)	
Net Changes in Fund Balances	(205,000)	(605,000)	255,543	860,543
Fund Balances - Beginning	205,000	605,000	1,233,352	628,352
Fund Balances - Ending	\$ 0	\$ 0	\$ 1,488,895	\$ 1,488,895

**LAUREL COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2003**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. Formal budgets are not adopted for the General Obligation Bond Fund, the Laurel County Courthouse Annex, Inc., the Jail Canteen Fund, and Laurel County Section 8 Housing.

The State Local Finance Officer does not require the General Obligation Bond Fund and the Laurel County Courthouse Annex, Inc. to be budgeted. Bond indentures and other relevant contractual provisions require specific annual payments to these funds and these transfers are budgeted in the governmental funds.

The State Local Finance Officer does not require the Jail Canteen Fund to be budgeted because the fiscal court does not approve the expenses made from these funds.

The State Local Finance Officer does not require the Laurel County Section 8 Housing to be budgeted because the fiscal court does not approve the expenses made from these funds.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

THIS PAGE LEFT BLANK INTENTIONALLY



**LAUREL COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2003**

**LAUREL COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2003**

	<b>Special Revenue Funds</b>			
	<b>Local Government Economic Assistance Fund</b>	<b>Forest Fire Fund</b>	<b>Local Government Economic Development Fund</b>	<b>Chemical Stockpile Emergency Preparedness Program Fund</b>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 206,246	\$ 3,795	\$ 2,252	\$ 20,070
Total Assets	<u>\$ 206,246</u>	<u>\$ 3,795</u>	<u>\$ 2,252</u>	<u>\$ 20,070</u>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	\$	\$	\$	\$ 2,090
Unreserved:				
Special Revenue Funds	<u>206,246</u>	<u>3,795</u>	<u>2,252</u>	<u>17,980</u>
Total Fund Balances	<u>\$ 206,246</u>	<u>\$ 3,795</u>	<u>\$ 2,252</u>	<u>\$ 20,070</u>

## LAUREL COUNTY

## COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

## Other Supplementary Information

June 30, 2003

(Continued)

---

Special Revenue Funds

---

<b>Economic Development Fund</b>	<b>Camp Wildcat Preservation Fund</b>	<b>Total Non-Major Governmental Funds</b>
<hr/>	<hr/>	<hr/>
\$ 177,033	\$ 50,020	\$ 459,416
<hr/>	<hr/>	<hr/>
\$ 177,033	\$ 50,020	\$ 459,416
<hr/>	<hr/>	<hr/>
\$	\$	\$ 2,090
<hr/>	<hr/>	<hr/>
177,033	50,020	457,326
<hr/>	<hr/>	<hr/>
\$ 177,033	\$ 50,020	\$ 459,416
<hr/>	<hr/>	<hr/>

THIS PAGE LEFT BLANK INTENTIONALLY

**LAUREL COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2003**

**LAUREL COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2003**

	<b>Special Revenue Funds</b>			
	<b>Local Government Economic Assistance Fund</b>	<b>Forest Fire Fund</b>	<b>Local Government Economic Development Fund</b>	<b>Chemical Stockpile Emergency Preparedness Program Fund</b>
<b>REVENUES</b>				
Taxes	\$	\$ 1,567	\$	\$
Intergovernmental	286,384			36,414
Charges for Services		96		
Miscellaneous				
Interest	3,018	38	23	
Total Revenues	289,402	1,701	23	36,414
<b>EXPENDITURES</b>				
General Government	313,083			
Protection to Persons and Property		2,232		59,230
Roads	43,275			
Debt Service				
Capital Projects				
Administration				1,759
Total Expenditures	356,358	2,232		60,989
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(66,956)	(531)	23	(24,575)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds				6,000
Total Other Financing Sources (Uses)				6,000
Net Change in Fund Balances	(66,956)	(531)	23	(18,575)
Fund Balances - Beginning	273,202	4,326	2,229	38,645
Fund Balances - Ending	\$ 206,246	\$ 3,795	\$ 2,252	\$ 20,070

LAUREL COUNTY  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
 IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
 Other Supplementary Information  
 For The Year Ended June 30, 2003  
 (Continued)

**Special Revenue Funds**

<b>Economic Development Fund</b>	<b>Camp Wildcat Preservation Fund</b>	<b>Total Non-Major Governmental Funds</b>
\$	\$	\$
	75,160	1,567
		397,958
		96
2,982	680	3,662
1,537	424	5,040
4,519	76,264	408,323
		313,083
		61,462
		43,275
37,955		37,955
	49,376	49,376
		1,759
37,955	49,376	506,910
(33,436)	26,888	(98,587)
		6,000
		6,000
(33,436)	26,888	(92,587)
210,469	23,132	552,003
\$ 177,033	\$ 50,020	\$ 459,416

THIS PAGE LEFT BLANK INTENTIONALLY



**LAUREL COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2003**



**LAUREL COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Other Supplementary Information**

**Fiscal Year Ended June 30, 2003**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the financial statements of Laurel County, Kentucky.
2. Two reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Laurel County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Laurel County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Laurel County reported in Part C of this schedule.
7. The programs tested as major programs were: High Intensity Drug Trafficking Area Grants (There is no CFDA # for this program.) and Section 8 Housing Choice Vouchers (CFDA #14.871).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Laurel County was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

**REPORTABLE CONDITIONS**

**Reference Number 2003-1**

**The County Engaged In Related Party Transactions**

During the year ended June 30, 2003, Laurel County paid Greer Construction Company, Inc. \$173,412 and Bengel Trucking Company, Inc., \$822,632 for road construction work. In addition, on November 4, 1998, the fiscal court loaned Bengel Trucking, Inc. \$390,000 from the Industrial Authority's portion of the Occupational Tax Fund. Greer Construction Company, Inc. is the employer of former Magistrate David Bruner and the brother of former Magistrate Teddy Bengel owns Bengel Trucking Company, Inc. The contracts awarded to each of these companies were subject to the open bidding process.

During the year ended June 30, 2003, Laurel County paid Ronald Rockwell \$15,972 for repairs on the air conditioner and high maintenance at the detention center. Ronald Rockwell is the father of the county treasurer. These expenditures were approved by the fiscal court.

Because of the nature of the relationships between the companies, the respective former magistrates, and county treasurer, the transactions are considered to be related party transactions. We recommend the Laurel County Ethics Board review these transactions.

**LAUREL COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Other Supplementary Information**  
**Fiscal Year Ended June 30, 2003**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

REPORTABLE CONDITIONS (Continued)

**Reference Number 2003-1 (Continued)**

*County Judge/Executive Lawrence Kuhl's Response:*

*Teddy Bengé and David Bruner were not re-elected as magistrates for the new term to start January 8, 2003. The Ethics Board has reviewed and addresses this situation with Mr. Bengé and Mr. Bruner. Jailer Jack Sizemore hired Ronald Rockwell to do repairs at the jail. Karen Montgomery, County Treasurer has no authority to hire and had nothing to do with his hiring. She was instructed to by the approval of the Fiscal Court to pay the bills. This should not be noted in the audit report just because she is Mr. Rockwell's daughter.*

**Reference Number 2003-2**

The Fiscal Court Should Update The County's Road List

Pursuant to KRS 177.320, certain fund, known commonly as "county road aid funds," are "allocated" to the counties for "...construction, reconstruction, and maintenance of county roads and bridges...." In order to facilitate monitoring of the application of these funds, and in connection with its responsibilities concerning state maintained secondary and rural roads within the counties, the fiscal court has a record of those roads within a county, which have been accepted, by the fiscal court as county roads.

Presumably a fiscal court would want such a listing to show every lawfully accepted county road within the county, in order to provide documentation that a given road is eligible for expenditure of state funds made available pursuant to KRS 177.320. We believe this listing gives rise to a rebuttable presumption that a road not shown on a county road listing is not a "county road" within the meaning of KRS 178.010 (1)(b). However, such a presumption may be rebutted by various circumstances. For example, if a road that is not shown, but which has in fact been accepted by the fiscal court as a county road, was not included on the listing through inadvertence. Public monies (e.g., county general fund or other monies) should not be spent to maintain a road that has not been validly and formally accepted as a county road by the fiscal court.

Road materials totaling \$37,269 were used on roads that were not included on the county's road list. We recommend that the county prepare an accurate and updated list of county roads and monitor road expenditures to ensure that road funds are expended only on county roads.

*County Judge/Executive Lawrence Kuhl's Response:*

*Since I have been in office, January 8, 2003, we have done extensive research of fiscal court minutes and other documentation received in order to update our county road list and assign new county road numbers. We plan to have a new county road map made. The roads you have listed in the audit was worked on prior to my election.*

**LAUREL COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Other Supplementary Information**  
**Fiscal Year Ended June 30, 2003**  
**(Continued)**

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)**

**PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT**

- The County Engaged In Related Party Transactions
- Reimbursements Should Be Properly Documented
- The Fiscal Court Should Update The County's Road List
- Contracts Should Be More Specific
- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005

These findings have not been corrected and have been commented on in the current audit report, with the exception of the following:

- Reimbursements Should Be Properly Documented
- Contracts Should Be More Specific
- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

None.

THIS PAGE LEFT BLANK INTENTIONALLY

**LAUREL COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Other Supplementary Information**





**LAUREL COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplementary Information**

**Fiscal Year Ended June 30, 2003**

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
 Cash Programs:		
 <u>National Oceanic and Atmospheric Administration</u>		
 Passed-Through Governor's Office for Local Development:		
Congressionally Identified Awards and Projects -		
PRIDE Community Grant Program		
(CFDA # 11.469)	CF02-14	\$ 23,249
 <u>U.S. Department of Housing and Urban Development</u>		
 Direct Program:		
Section 8 Housing Choice Vouchers		
(CFDA #14.871)	N/A	1,203,142
 <u>U.S. Department of Justice</u>		
 Passed-Through State Justice Cabinet:		
U.S. Office of National Drug Control Policy:		
High Intensity Drug Trafficking Area	N/A	4,817,873
(No CFDA)		
 <u>U.S. Department of Transportation</u>		
 Passed-Through Governor's Office for Local Development:		
Highway Planning and Construction-		
Camp Wildcat Overlook and Trail Project		
(CFDA # 20.205)	C-00055776	19,693
 <u>U.S. Army Corps of Engineers</u>		
 Southern and Eastern Kentucky Environmental Improvement Program-		
Northland Sewer Project	N/A	\$ 32,500
(No CFDA)		

**LAUREL COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplemental Information**  
**Fiscal Year Ended June 30, 2003**  
**(Continued)**

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs: (Continued)		
<u>U.S. Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
State Domestic Preparedness Equipment Support Program (CFDA #97.004)	N/A	172,869
Chemical Stockpile Emergency Preparedness Program (CFDA #97.040)		59,230
Assistance to Firefighters' Grants- (CFDA #97.044)	N/A	80,978
Emergency Management Performance Grants- Coordinator Salary (CFDA #97.042)	N/A	<u>5,787</u>
Total U.S. Department of Homeland Security		<u>\$ 318,864</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 6,415,321</u></u>

**LAUREL COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplementary Information**  
**Fiscal Year Ended June 30, 2003**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Laurel County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - Of the federal expenditures presented in the accompanying Schedule of Expenditures of Federal Awards, Laurel County Fiscal Court provided federal awards to the following subrecipient:

<u>Subrecipient</u>	<u>Pass-Through Grant Amount</u>
The Financial Commission For The Appalachian High Intensity Drug Trafficking Area	<u>\$ 4,817,873</u>



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

Honorable Lawrence Kuhl, Laurel County Judge/Executive  
Members of the Laurel County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Laurel County, Kentucky, as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated November 12, 2004. Laurel County prepares its financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Laurel County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of material noncompliance that are required to be reported under Government Auditing Standards

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Laurel County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Laurel County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 2003-1 and 2003-2.

- The County Engaged In Related Party Transactions
- The Fiscal Court Should Update The County Road List



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that both reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, pass-through entities, and the Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
November 12, 2004



**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Lawrence Kuhl, Laurel County Judge/Executive  
Members of the Laurel County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Laurel County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Laurel County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Laurel County's management. Our responsibility is to express an opinion on Laurel County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Laurel County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Laurel County's compliance with those requirements.

In our opinion, based on our audits, Laurel County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Laurel County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Laurel County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
November 12, 2004

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**LAUREL COUNTY FISCAL COURT**

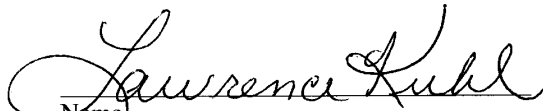
**For The Fiscal Year Ended  
June 30, 2003**




CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS  
LAUREL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The Laurel County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
Name  
County Judge/Executive

  
Name  
County Treasurer





